UNITED
NATIONS

ST

Secretariat

Distr.
GENERAL

PROVISIONAL
ST/ESA/STAT/SER.F/2/Rev.4 (Chapter XIX)
9 July 1992
ENGLISH
ORIGINAL: ENGLISH/SPANISH

REVISED SYSTEM OF NATIONAL ACCOUNTS

CHAPTER XIX

APPLICATION OF THE INTEGRATED FRAMEWORK TO VARIOUS CIRCUMSTANCES AND NEEDS

Prepared under the auspices of
the Inter-Secretariat Working Group on National Accounts:

EUROSTAT
INTERNATIONAL MONETARY FUND
ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT
UNITED NATIONS STATISTICAL DIVISION AND REGIONAL COMMISSIONS
WORLD BANK

92-31084

XIX. APPLICATION OF THE INTEGRATED FRAMEWORK TO VARIOUS CIRCUMSTANCES AND NEEDS

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XIX. APPLICATION OF THE INTEGRATED FRAMEWORK TO VARIOUS CIRCUMSTANCES AND NEEDS

List of Acronyms

GDP	gross domestic product
ISIC	International Standard Industrial Classification
NPI	non-profit institution
SAM	social accounting matrix

XIX. APPLICATION OF THE INTEGRATED FRAMEWORK TO VARIOUS CIRCUMSTANCES AND NEEDS

A. Introduction

1. The central framework of the SNA pursues at least two objectives. Firstly, it tries to help the development of a country's own system of national accounts by providing guidance to the national accountants of this country so that they are spared the trouble of searching and experimenting with approaches already tried by others. Secondly, it aims at facilitating international comparability between the national accounts of various countries in order to facilitate economic and social analysis in a worldwide economy. As such it is a set of integrated international standards.

2. These two objectives may appear to be in conflict in so far as many differences exist among countries with respect to their stage of development, economic and social structure, legal organization, economic and social policy, etc. The conflict may indeed exist to a certain extent, especially when looking at countries in very different situations. However, the premise is that the accounting structure is general enough to suit most cases. This does not mean, of course, that all countries' distinctive features are reflected in the SNA standards; that would be impracticable. It does mean that such features may normally be accommodated within the margins of flexibility provided by the System, especially when designing classifications of transactions and transactors and determining the related definitions. Even the most detailed levels of the System's classifications remain general in character and are not a priori relevant for any economy. Of course, some items may not exist in some countries, like value added tax or import subsidies, and consequently they will not be retained in their national classifications. Alternatively, a country could find it useful to show more details at a given level of a classification or to introduce additional levels. The national accountants of any country are encouraged to do this, keeping in mind the objective of international comparability.

3. The intent behind the SNA is that countries should find it possible to implement the integrated framework without conflict with their own requirements. Conversely, countries should find it possible to innovate when elaborating their own national accounts so that they do not depart from the main international standards.

4. In general, in response to analytical requirements and data availability, the emphasis put on various aspects may vary within the context of the integrated System. This may be achieved by using the System's classifications of institutional sectors, industries, products, transactions, accounts, etc. at various levels or including additional ones; by applying alternative methods of valuation; by giving different priorities for various parts of the accounts and different frequencies; by rearranging the results for publication; etc. The elements of complementary classifications of transactions, other flows and balancing items were especially designed for additional presentations and analysis. It is also possible to re-order the institutional sub-sectors in order to give more importance to the criterion of

control which, in the hierarchic classification, does not appear at the first or even second level. Moreover, one may introduce additional criteria which, while not being included in the basic classifications of the SNA, do not conflict with the logic of the System. For example, these additional criteria might be size of employment for enterprises, size of income for households or the distinction between rural and urban segments of the economy.

5. The flexibility of the SNA such as just described deserves special emphasis because in the past the narrow perception had grown up that the SNA was a limited set of accounts that did not display all the interconnections of the economy and lacked flexibility for application to different conditions in different countries. Solutions to these drawbacks had sometimes been sought through the building of social accounting matrices (SAMs), which displayed the interconnections, disaggregated the household sector, showed the link between income generation and consumption, etc. Further, sometimes the incorrect impression had been given that a SAM is an alternative to the SNA. A SAM is not an alternative to the SNA. A SAM is the SNA - in matrix terms and incorporating whatever degree of detail is of special interest. (For further explanation of the matrix presentation and SAMs, see the <annex to chapter II, Overview, and chapter XX, Social Accounting Matrices>, respectively.) To date, builders of SAMs have exploited the available flexibility to highlight special interests and concerns more than compilers of regular national accounts. The power of a SAM, as well as of the SNA, comes from choosing the appropriate type of disaggregation to study the topic of interest. It is an aim of this book to show the advantages of applying such flexibility as a regular part of compiling some or all aspects of the accounts, whether the presentation is a full set of accounts or an equivalent matrix.

6. The purpose of this chapter is not to elaborate in detail how a country may design its system following the SNA, but to show how, by using it in a flexible way, a country may adapt the central framework to special circumstances or types of analysis. The chapter provides a number of examples of such adaptations. In order to avoid misunderstanding, it must be clear that these adaptations are not outside the central framework, but rather they are ways and means of building up a central framework with specific features according to national circumstances and needs.

B. Detailed Analysis of the Household Sector

7. For in-depth analysis of economic and social conditions of the population, great importance has to be given to the analysis of the household sector. In the SNA as much importance is attached to the accounts of the household sector as to the accounts of other sectors. The household sector is a complex one. In effect, it covers firstly the domestic transactions of households, that is, transactions relating to the households' role as final consumers. Secondly, it covers activities households carry out and transactions they realize in connection with production activities which are not organized on a corporate or quasi-corporate enterprise basis. For those households which are engaged in production activities, the household

institutional unit realizes both kinds of transactions and holds assets and liabilities belonging to and incurred by the household in question. There is only one figure for this unit's saving and one for its net worth. In effect, there is no way of observing, after entrepreneurial income has been calculated, how this income is distributed partly to the household as consumer, and partly retained in the enterprise, because no such distribution actually takes place. Although some assets and liabilities may be identified as being of an enterprise-type or a domestic type, others may not, but in any case it is the household as such which is the owner of all assets and is responsible for all liabilities.

8. Most households include several individuals who differ not only in physical characteristics, like sex and age, but also as to whether they are employed or not, and if employed, in the kind of productive activities in which they engage. So the economic characteristics of a given household may be rather heterogeneous. However, the socio-economic status of a household is a useful way to characterise the household as a group of individuals because all its members live together and because they are linked by family or similar relationships and share many common features both from a social and economic point of view.

1. Sub-sectoring the household sector

9. As the household sector as a whole is very heterogeneous economically and socially, it is absolutely necessary to separate more homogeneous groups within the sector. The System includes a classification of sub-sectors of households. Households are allocated to these sub-sectors according to their largest source of income (see <chapter IV, Institutional Units and Sectors>). Countries may want to introduce more detail or use a different method, such as the socio-economic characteristics of a reference person - who normally provides the main source of income, or more than one method of sub-sectoring. Various criteria might be used.

10. For employers and own-account workers, the kind of economic activity in which they are engaged, like agriculture, mining, manufacturing or construction, or services, is obviously meaningful. However, inside these broad categories, the type and size of the business and subsequently income and wealth may differ considerably. Countries may want therefore to introduce additional criteria, which may vary from one activity to the other, relative to the size and type of the enterprise of which a household is the owner. The size can generally be defined in terms of number of employees and family workers, except in agriculture and trade. In agriculture, the area, the number of cattle, etc., have to be taken into account; in trade, the amount of sales is more significant. The type of enterprise refers to the way it is organized and operated, taking into consideration the legal status or its absence, the existence of accounts or their absence, the stability of the activity or its absence, etc. A distinction commonly referred to is the one between formal and informal activities, which relies upon these kinds of criteria. Although a certain degree of informal activity may exist marginally

in developed countries, the distinction is particularly relevant for developing countries. In many of them, it is crucial due to the number of people involved (street traders, shoe cleaners, etc.) who are generally own-account workers, but may be employers too. The distinction between formal and informal activities/enterprises is recommended in the System, when relevant, although no international standard definition is available at the time the System is established. The distinction will be used for further sub-sectoring of employers and own-account workers.

11. For employees, various levels of skills may be distinguished. Other criteria, like the broad categories of activities or type of enterprise in which people work, may also be used.

12. The rural/urban distinction may be essential in certain circumstances. The only feasible way to introduce it in the overall accounting structure is based on household survey data, adjusted in order to take into account production surveys and administrative data. Also, a distinction between ethnic groups may be relevant in certain countries.

13. Table XIX.1, Sub-sectoring of Households, summarizes these alternatives.

2. Applying the sequence of accounts to sub-sectors

14. The full sequence of accounts is relevant for all sub-sectors. However, the Production and Generation of Income Accounts are important mainly for the employers 1/ and own-account workers sub-sectors. Building up these accounts even roughly is in many cases the only way to get an approximation of the mixed income accruing to those households. Production and Generation of Income Accounts in the case of the other sub-sectors cover services of owner-occupied dwellings, services produced by employing paid domestic servants, incidental production activities and other unincorporated enterprises that constitute only a secondary source of income.

15. The accounting structure of the System is designed in order to describe the three main stages of income distribution and redistribution:

(1) Primary incomes (which in the case of the household sector cover operating surplus, mixed income, compensation of employees, net property income received),

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1/ Note that a household whose reference person is the owner of a quasi-corporation will be classified in the sub-sector for employers. However, the Production and Generation of Income Accounts of this enterprise are recorded in the sector non-financial corporations, not in the household sector. The owner receives an income called "withdrawal from income of quasi-corporations".

(2) disposable income, measured after allowing for current taxes on income, wealth, etc. and other current transfers, excluding social transfers in kind,

and

(3) adjusted disposable income, measured after allowing for social transfers in kind.

The magnitudes of these three concepts of income may differ widely at the level of the overall household sector. The differences between them are even greater for at least some types of households, which means that in principle it is necessary to take all of them into account to give a correct picture of income redistribution. In addition, distinguishing the three concepts leads to the measurement of actual final consumption and saving. Actual final consumption gives the best approximation of the total of consumer goods and services actually acquired by the various groups of households, which is necessary for assessing their living standards. On the other hand, saving approximates the change in assets available for the future, at least when destruction of assets by natural catastrophes or political events and holding gains/losses due to inflation are not very important.

16. The above paragraph has shown the importance of depicting the complete process of income redistribution, including a thorough study of transfers <<see paragraph 25>>. Conversely, for other purposes more closely linked to short-term analysis of purchasers' behaviour, a concept of income relating to that part of income on the use of which households can actually take decisions may be required. Such a concept might be called discretionary income. See <chapter VII, Secondary Distribution of Income> for an explanation of why disposable income differs from such a concept.

17. Income distribution is commonly studied according to size of income. Various statistical units are used in such studies - the households or the individual or the tax cluster, depending on the data source and the kind of income in question. For analysing the distribution of compensation of employees or more narrowly wages and salaries, the individual is used because he/she is the wage earner. In this case, the type of income and source of data lead to the same choice of statistical unit. For operating surplus and mixed income, the relevant statistical unit may be either the enterprise or the household, because in most circumstances more than one member of the household is working in this producing unit. For global concepts of income (primary, discretionary, disposable, adjusted disposable income), the household is the appropriate statistical unit. The tax cluster may have to be used if administrative data organized that way are the only sources of income data, especially the only regular ones. Household surveys may be designed in order to best approximate the concept of the household as the statistical unit. In any case, they have to be supplemented by other sources of data if the picture is to be complete. Of course, when using statistical units which are not the individual, it is necessary to make calculations of income by head

(or by a statistical standard like consumption units) in order to avoid misinterpretation.

18. One could think of subdividing the household sector, in the context of national accounts, by income size and of trying to establish a full set of accounts for each income bracket. This might be thought of as an alternative to the breakdown by socio-economic groups or as a complementary subdivision inside each such group or sub-group. While this approach presents no conceptual difficulty (except in choosing the most relevant income concept), it is improbable that available data permit it in practice. However, the size of income criterion might be used for decomposing certain items, such as discretionary income or disposable income and at least some of their main components.

19. Apart from the Capital Account, the other accumulation accounts and the balance sheets may be very difficult to establish for disaggregated kinds of households, due to data problems. Studying wealth inequalities is, however, an essential part of economic and social analysis. Various statistical tools may be used, mainly saving and wealth surveys, records on capital taxes, data on stocks of buildings and on financial assets and liabilities. Even in countries where their integration in a national account framework is a long-term objective, partial analysis, depending on various circumstances and needs, may be feasible and are very useful for complementing figures from the current accounts and the capital account. For example, estimates of real holding gains and losses on at least monetary assets and liabilities are important for assessing the effects of inflation on households. In a country where floods, earthquakes or wars destroy an important part of household assets, even a rough estimate of such destruction is highly desirable.

3. Introducing complementary details in transactions and balancing items

20. So far this section dealt with the disaggregation of the household sector in terms of the corresponding column in the Integrated Economic Accounts, commenting on the sequence of accounts and the redistribution and accumulation process. We now look at the rows of those accounts, that is, at the transactions and some balancing items. A number of features of the System's classifications and relevant complements are introduced. They are examined in the order of the sequence of accounts and the classifications of transactions.

21. Similar purposes may be pursued either by subdividing the column for the household sector or by distinguishing various components of certain transactions or balancing items in the rows. When the first approach is not feasible in practice, an approximation might be available by analysing only some important items, such as compensation of employees or mixed income, in the rows. For example, the rural/urban distinction mentioned in the previous section might be very useful for at least certain income concepts even if it cannot be implemented fully. Of course, combining both approaches would

permit the richest analysis, when necessary data are available or valid approximations derivable.

22. Output may distinguish between components which are sold, bartered or destined to own-account uses, like own-account final consumption and own-account fixed capital formation, or added to inventories (the net variation of which may be positive or negative).

23. Compensation of employees (and the corresponding figures on employment) lends itself to an analysis by kind of labour (for example, level of education, skill - based on a classification of occupations - and sex), industry of employment or location (as in the rural/urban distinction). Compensation of employees in cash and in kind may also be separated. As already explained, the distribution of compensation of employees or, if not feasible, wages and salaries by income brackets is an important element of economic and social analysis.

24. Mixed income and entrepreneurial income may be broken down in various ways (in the case of households, operating surplus refers only to the services of owner-occupied dwellings). Here again, various criteria may be used. Industry of origin, formal or informal segments of the economy or location have been referred to previously. In addition, the distinction between modern and traditional activities used in production (which is not synonymous with the distinction between formal and informal activities 2/) or, as an approximation, between capital intensive and labour intensive activities, may be introduced. If the subsistence economy represents a significant share of a country's economy, it is recommended that this should be separated from the other informal traditional activities.

25. The analysis of transfers is an important part of the study of income redistribution. Data on transfers may come from household surveys and administrative records. The System's multi-level classification may be complemented in various ways. For example, social benefits might be broken down according to the type of risk covered (unemployment, sickness, old age, etc.). Or, in a country where the responsibility for redistributing income is still found at the level of the family, transfers between resident households and remittances from members of the family living abroad might be isolated by subdividing the miscellaneous current transfers of the classification, while using the remaining part of the latter at a more aggregated level.

26. Final consumption expenditure covers components already met above when considering output. Own-account consumption at least should be distinguished from other consumption elements. If barter transactions are important in a country or a region, they might also be isolated. Another possibility is to distinguish more systematically monetary components from in-kind elements.

2/ For example, formal activities in agriculture may be modern or traditional in the same country such as intensive poultry breeding or extensive cattle farming.

The latter will also include the counterparts of compensation of employees in kind and transfers in kind from the rest of the world and corporations, if any. Further, the various components of non-monetary consumption transactions may be identified.

27. Transfers in kind by government or non-profit institutions (NPIs) serving households have to be taken into account in order to go from consumption expenditure to actual consumption. They are of course non-monetary by definition.

28. The need for separating monetary and non-monetary transactions leads to the isolation in the Capital Account of own-account capital formation.

29. Table XIX.2, Integrated Economic Accounts for the Household Sector, presents the sequence of accounts for the household sector with the classification of transactions and balancing items complemented by additional subdivisions. A number of the subdivisions are elements of complementary classifications.

C. Expenditures by Enterprises in Transition Economies on Behalf of Employees

30. One of the reasons for separating institutional units into sectors has to do with the basic objectives of the units (see <chapter IV, Institutional Units and Sectors>). Non-financial and financial corporations produce goods and services with the intention of selling them on the market at prices that cover their costs and making a profit. Government units and NPIs produce or purchase goods and services in order to provide them free, or at prices which are not economically significant, to individual households or to the community as a whole. The individual goods and services provided mainly concern health and education. Even in a market economy, some enterprises may also provide schools and hospitals for their employees. For example, mining companies operating in remote areas may do so. However, this provision of services is not solely, or even primarily, a concern with social policy; rather it is dictated by the demands of the market place. If schools and hospitals are not available close to the mines, people would not be willing to work there. In these circumstances, the provision of the education and health services is seen as being part of the remuneration package offered to employees, and the value of these services is treated in the System as wages and salaries in kind.

31. Under a planned economy, enterprises frequently provided health, education and recreational services for their employees (and sometimes the general population), not primarily to attract employees but as an extension of a government policy of providing these services throughout the economy. Since the enterprises were state controlled, the state could use them as "agents" to ensure that the services were provided in specific regions or to particular groups of workers. The costs of the services were taken into account, at least implicitly, when calculating the transfers to be paid from the enterprise to government (taxes) or from government to the enterprise (subsidies). Within the System of Statistical Balances of the National

Economy, the expenditures were recorded as part of total consumption of the population (equivalent to actual final consumption of households in the SNA).

32. As countries make the transition from planned to market economy, and from using the System of Material Product Balances (MPS) to using the SNA, there is a question about how to record these expenditures by enterprises on behalf of their employees. The SNA does not recognise a concept of final consumption expenditure of enterprises because, as mentioned above, the concept of enterprise is based on considerations of matching supply and demand through the market place.

33. One possibility would be to treat the expenditures as wages and salaries in kind, as in the case of the mining company quoted above. The treatment of wages and salaries in kind in the System is such that the output of health and other social services by the enterprise would then be recorded as purchased by the employees using these in-kind wages and salaries as the matching resources. This would balance supply and demand and show the correct level of household consumption of the services in question. However they would appear as part of household final consumption expenditure and not as social transfers in kind. The rationale for introducing the difference between consumption expenditure and actual consumption into the System is precisely to be able to see the difference between who finances the consumption and who benefits from it. Not recognising these expenditures as a form of social transfer in kind would seriously distort the analysis of who pays and who consumes just at the moment when monitoring the emerging patterns of market behaviour is of most importance.

34. To resolve the problem for the duration of the transition, it is suggested that, for countries in transition, enterprises undertaking significant amounts of social expenditure on behalf of their employees should be treated as two institutional units. That part of their activity concerned with producing goods and services for sale on the market should be treated as a financial or non-financial enterprise as appropriate. That part of the activity concerned with the provision of social services to their employees should be treated as a NPI, even if there is not a complete set of accounts, including a balance sheet, relating to these activities alone. Given the book-keeping practices in countries in transition, it is likely that in many cases complete accounts will be available and treating these as relating to an NPI would in fact simply be the direct implementation of SNA principles. In cases where less complete records exist, a "quasi-NPI" should be established using whatever information is available. This may consist of data relating to a production account only, in which case the output will be recorded as produced by the quasi-NPI. Alternatively, it may not be possible to separate production costs. In this case the total production of the financial or non-financial enterprise will include the production of the social services, which will appear as being sold to the quasi-NPI.

35. In all three cases, individual consumption expenditure will be recorded by the NPI or quasi-NPI, financed by a transfer of the same amount by the parent enterprises. These will form part of social transfers in kind and thus

enter households' actual final consumption but not their consumption expenditure. Because of their importance, all these NPIs should be grouped together in a special sub-sector of NPIs called enterprise NPIs so that their changing role during the transition process can be monitored. When the sub-sector is no longer significant, any remaining expenditure of this type by enterprises should be treated as wages and salaries in kind and the quasi-units merged back with their parent enterprises.

D. Public, National Private and Foreign Controlled Sectors

36. The classification of institutional sectors systematically includes the distinction between public, national private and foreign controlled corporations. For non-financial corporations, it appears at the second level of the classification; in the case of financial corporations, the distinction is made only at the third or fourth level. The existence of these pieces permits their rearrangement for analytical purposes according to the needs and circumstances.

1. The public sector

37. The pieces composing the public sector are present in the main classifications of the System and can be rearranged in order to show the accounts of the overall public sector. This is done by putting together the sub-sectors of general government and the public sub-sectors of non-financial and financial corporations. The accounts of the public sector portray the role of the public authorities in supplying goods and services to the economy and the demands on the resources for production which the public authorities make. The accounts also delineate the means of financing production, consumption and capital formation used by the public sector, its contribution to inflationary or deflationary pressures and to the external surplus or deficit and external debt. The role of the public sector in the redistribution of income already appears in the general government accounts.

38. The full sequence of accounts lends itself to the analysis of the public sector (though it may be difficult to obtain the data in some cases even if they normally exist for all units composing the public sector). At a minimum, the Production and Generation of Income Accounts have to be studied to identify the main activities carried out by public non-financial corporations. In addition, it is advisable to establish, whenever feasible, a complete set of accounts for sub-sectors of public non-financial corporations according to their main economic activity.

39. The public sector accounts may be presented in a framework similar to the Integrated Economic Accounts but with columns shown first for the various components of the public sector, then for the rest of the economy (the private sector). As analysts are interested in the relation of the public sector as a whole with the rest of the economy, consolidated accounts are necessary. However, in order to preserve an understanding of the System, it seems

preferable to present the accounts of the public sector before consolidation, then after consolidation. (As explained in <<paragraph of chapter II, Overview>>, transactions appearing in different accounts are never consolidated in order not to change the balancing items.)

40. These rearrangements of sectors might be shown in a presentation similar to the Integrated Economic Accounts. They are shown in the five columns labelled "Public Sector" in table XIX.3, Integrated Economic Accounts with Public Sector Details and National/Foreign Distinction. 3/

41. If a country is facing balance of payments problems, it would be extremely useful to record separately the external transactions of the public sector, if feasible (the main difficulty refers to exports and imports which necessitate a special analysis). Doing this would allow the external balance of goods and services, the current external balance and the net lending of the rest of the world to be measured separately for the public sector and the private sector. The necessary breakdown of the rest of the world columns is shown in table XIX.3.

42. For certain analyses, narrower concepts of the public sector are useful when dealing with capital and financial accounts. They refer to the non-financial public sector (i.e., general government plus public non-financial corporations) and the non-monetary public sector (i.e., the non-financial public sector plus public financial corporations except the central bank and other depository institutions). Consolidated capital and financial accounts for these alternative definitions are recommended.

2. The national private and foreign controlled sectors

43. Accounting for the public sector implies interest in the accounts of the private sector. The latter covers private corporations, households and NPIs serving households. However, private corporations in turn include foreign controlled and national ones. Foreign controlled non-financial and financial corporations may be grouped in order to show their transactions separately from those of the national private sector (which covers national private non-financial and financial corporations, households and NPIs serving households 4/). For foreign controlled units from the one side, and for national private units from the other, there is no obvious need for consolidation.

44. Table XIX.3 shows a arrangement in which the private sector is the sum of the foreign controlled sector and the national private sector. Of course,

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3/ The sub-sectors of general government may be shown separately.

4/ In certain countries, transactions of foreign controlled non-profit institutions serving households may be significant and should be added to the foreign controlled sector and deducted from the private sector.

the components of foreign controlled (non-financial and financial corporations) and national private sectors (non-financial, financial corporations, households and NPIs) may be shown in such a presentation if so desired.

45. The analysis of the public sector, the national private and the foreign controlled sector and the moving of units from one sector to another due to privatisation and the sale of previously state-owned entities is a major issue in various parts of the world. It is a special concern in the case of countries in transition toward a market economy and has many implications for the national accounts of these countries.

46. It would also be analytically useful in certain circumstances to show separately, if feasible, the external transactions of the foreign controlled and the national private sector, respectively.

3. Restatement of purpose

47. The intention of the above paragraphs is not to propose a choice between its presentation of sub-sectors and the standard one (incorporated, for example in the Integrated Economic Accounts shown in <chapter II, Overview>) where the hierarchic classification is directly used. Both types of analysis and presentation are parts of the central framework and may be used together if relevant for a country.

48. Accounting for the public, foreign controlled and national private segments of the economy gives important structural information, such as their respective shares in value added, various income concepts and saving. Data on employment in these various parts of the economy are also very useful. Above all, such accounts allow the economic behaviour and results of those sectors to be analyzed in a consistent way.

E. Key Sector and Other Special Sector Accounts

49. The System permits an integrated analysis of economic activities within each institutional sector. For example, accounts for sub-sectors of non-financial corporations may be established by grouping corporations or, if more meaningful, sub-groups of corporations according to their main economic activity. The analysis may cover the full economic process, from production to accumulation. This may be done systematically at a given level, probably fairly aggregated, of International Standard Industrial Classification (ISIC) or for a number of selected industries which are of special interest in a given country. Similar analysis can be made for household production activities, at least up until the point where entrepreneurial income is calculated.

50. In certain cases, it is very useful for economic analysis to put special emphasis on activities that play a predominant role in the economy's external

transactions and equilibrium in general. These key activities may include the petroleum sector, mining activities or crops (coffee, for example), which account for an important part of exports, foreign exchange assets and, very often, government resources. In certain economies, banking itself is a key activity. The System does not try to provide specific and precise criteria for the definition of what a key sector or activity is. It is a matter of judgement in a given country, based on economic analysis and economic and social policy requirements. For instance, even a small industry at an infant stage might deserve to be treated as a key activity.

51. First, these key activities and their corresponding products have to be defined. For this, items shown in distinct places of ISIC or the national classification may need to be grouped together. For example, accounting for oil and natural gas may cover extraction of crude petroleum and natural gas (ISIC division 11), manufacture of refined petroleum products (ISIC class 2320), transport via pipelines (ISIC class 6030), wholesale of solid, liquid and gaseous fuels and related products (class 5141) and retail sale of automobile fuel (class 5050). The extension of the key sector(s) depends on the circumstances. For example, the oil sector may have to cover petro-chemical processing.

52. A goods and services account for the key products is established showing the resources and uses of these products. A Production Account and a Generation of Income Account for the key industries are built up. For both activities and products, detailed classifications have to be used to fully understand the economic process and the related valuation procedures in this field. There generally exists a combination of market and administered prices, a complex system of taxes and subsidies, etc.

53. The key products and key industries accounts may be analyzed in the context of a supply and use table (see table XIX.4, Supply and Use Table with Key Activities and Products Details). Key industries are shown in detail in columns, and other industries may be aggregated. In the rows, key products are similarly shown in detail, and other products aggregated. Of course, all or some other industries or products may be shown in detail depending on the purpose of the table. At the bottom of the supply and use table, rows show labour inputs, gross fixed capital formation and stocks of fixed assets; the relevant figures for key industries appear at the intersection between these rows and the columns for industries. In the use part of the table, columns for gross fixed capital formation and changes in inventories respectively may be broken down between key sector(s) or industry(ies) and other sectors or industries. In a country where the key activity is carried out by very heterogeneous types of producers, such as small farmers and big plantations owned and operated by corporations, the two groups of producers can be distinguished, as they have wholly different cost structures and behave differently.

54. Then, a set of accounts, as complete as feasible, is compiled for the key sector, which has to be delimited. In the case of oil and mining activities, the key sector generally consists of a limited number of big

corporations. All transactions of the latter are covered, even when they carry out secondary activities, giving rise to secondary products. It is useful to know the nature of these secondary products, but not necessarily their destination. The distinction between public, foreign controlled or private corporations is of course fundamental when dealing with a key sector. The business accounts themselves have to be carefully studied for each big corporation involved to carry out an integrated analysis, a task that is neither straightforward nor easy. Part of mining activities may be carried out by small corporations or even unincorporated enterprises. These units must be included in the key sector, even if it is necessary to rely on partial information coming from statistical surveys or administrative data.

55. When the key activity is an agricultural one, like coffee in certain countries, the situation is more complex. Most producers are probably unincorporated enterprises that do not qualify as quasi-corporations. Ideally, the key sector accounts would include a complete set of accounts for the households that carry out these productive activities. Because this may be difficult to do in practice, it may be necessary to limit oneself to showing only the accounts and transactions which are most closely linked with the key activity. These may include production, generation of income and entrepreneurial income accounts from the one side and main transactions of the capital and financial accounts from the other.

56. In many cases, government plays an important role in connection with key activities, either via taxes and property income receipts, regulatory activity and/or subsidies. Accordingly, the detailed study of transactions between the key sector and general government is very important. The classification of transactions may be extended to identify those flows connected with the key activity, including the relevant taxes on products. These flows may be received, in addition to the general budget itself, by various government agencies, such as ministries for special purposes, universities, funds and special accounts, etc. Similarly, it is very useful for economic analysis to indicate what uses are made by government of these resources, especially, of course, in the case of oil when they do not go into the general budget. This calls for a specific analysis by purpose of this part of government expenditure.

57. When the key activities are based on natural non-renewable resources, like sub-soil resources, the key sector accounts have to record carefully the changes in these resources (new discoveries and depletion) in the Other Changes in Volume of Assets Account and holding gains/losses on them in the Revaluation Account. These data are crucial for assessing correctly the economic performance of the economy in question. More broadly, the key sector accounts may be extended in the direction of environmental accounting (see <chapter XXI, Satellite Analysis and Accounts>).

58. The key sector accounts may be presented in the framework of Integrated Economic Accounts. Table XIX.5, Integrated Economic Accounts with Key Sector Details, is an example. A column or group of columns is introduced for key sector(s) and some other columns are renamed when relevant, like "other

non-financial corporations" and/or "other households". Doing so makes it possible to see at a glance the respective shares of the key sector and other sectors in transactions and balancing items. Of course, the precise format of such a table depends on the circumstances and the objectives pursued. In the example given in table XIX.5, the key sector is supposed to include institutional units which are either foreign controlled, public or national private ones.

59. One more step may consist in showing in additional tables the "from whom to whom?" relations between the key sector and each other sector and the rest of the world. In any case, the external transactions of the key sector(s) are essential for economic analysis and may be shown in the Integrated Economic Accounts framework by subdividing the column for the rest of the world accordingly, as shown in table XIX.5.

60. Tourism as a special sector raises specific problems because tourism is not always easily identifiable directly as a set of activities, products and producing units. Consequently, tourism accounts are dealt with in the context of satellite accounts. Of course, it is possible to define more narrowly a key sector made out of institutional units which are mainly engaged in certain industries, obviously tourist in nature and to treat it directly in the central framework. This may be especially workable and meaningful in a country where tourist services are rendered mainly to non-residents, mostly in specific establishments.

61. On the model of key sector accounts, similar accounts may be built up for other special sectors which are not key sectors in the sense of <<paragraph 50>>, but deserve special consideration from the point of view of economic and social policy. Agriculture is often a good example in developed countries because it generates surpluses and necessitates an important amount of subsidies.

F. External Accounts Problems

62. The Rest of the World Accounts provide an overall view of a country's external transactions. This view is elaborated for imports and exports where they are broken down by products and for external assets and liabilities and financial transactions in the three-dimensional tables where relations between creditor and debtor sectors are shown.

63. Countries which experience difficulties in their external equilibrium may want to incorporate further details in their national accounts in order to provide a basis for more refined analysis. The measurement and analysis of the external transactions of the public/private sectors and of the key sectors and of the foreign controlled sector, both referred to above, may be of special relevance.

64. On the other hand, it is also possible to subdivide the Rest of the World Account according to various groupings of countries that are relevant in

light of a country's external relations. For example, such groupings may distinguish countries that are members of a regional pact, like the European Economic Community or the Andean Pact, countries that have similar economic conditions, like OPEC countries or the main exporting developed economies, etc. The SNA does not make any specific recommendation in this respect, because the relevant subdivision depends on countries themselves or regional agreements.

65. The analysis of imports by products and the elasticity of imports in relation to the rate of growth of gross domestic product (GDP) or changes in the rate of foreign exchange may be usefully supplemented by the study of the import content of intermediate and final consumption and capital formation. This may be done by using a variant of the supply and use table which distinguishes imported products from domestically produced goods and services in the various uses of goods and services (see <chapter XV, Supply and Use, Input-Output>).

66. The System recommends the calculation of the global amounts of implicit taxes and subsidies involved in multiple exchange rates if they exist in a country. This procedure allows a better and more consistent analysis of external accounts both in national and foreign currency. However, the System uses the actual exchange rates applied in the various transactions to convert their value in foreign currency to the one in the national currency, in order not to depart from the actual rates which have influenced the behaviour of the economic agents. In addition to this, a country may find it analytically useful to calculate each transaction in national currency by using the average exchange rate. The difference, for each transaction, between the latter value and the one previously obtained when using the actual exchange rate represents the implicit taxes and subsidies attached to the specific transaction. These figures are of interest when analysing the distortions a system of multiple exchange rate implies. A country with a unique exchange rate artificially stated may find it useful to do the same exercise. The additional difficulty in this case is the determination of the exchange rate of reference since it cannot be calculated as a weighted average exchange rate in such a situation.

67. Emphasis must be put on debt stocks and transactions when external debt problems are important. As recalled at the beginning of this section, the System provides for three-dimensional tables where transactions in financial instruments and stocks of such assets/liabilities are recorded according to creditor and debtor sectors. Even if a country does not find it feasible to elaborate these tables completely, they are worth doing at least for the rest of the world and the counterpart sectors. Such tables may be supplemented or arranged in order to show arrears and debt reorganization, if any. The servicing of external debt covers interest, which appears directly in the Rest of the World Accounts, and reimbursement of the principal of the debt. The latter does not appear explicitly in the Financial Account of the rest of the world because only net incurrence of liabilities by the Nation is included. In such circumstances, it is necessary to record separately incurrence of new debt and reimbursement.

G. High Inflation

68. Establishing meaningful national accounts in a country where high inflation prevails is indeed a challenge for national accounting. This challenge does not arise because those conditions create totally new national accounting problems. In fact, the same problems also exist conceptually in the very common situation of creeping inflation, with low rates of changes in the general level of prices. However, high rates of inflation exacerbate the problems. A method of measurement which gives acceptable approximate measures in more or less normal conditions may no longer be acceptable with significant inflation.

69. Basically, under high inflation the three classic roles of the currency are disrupted. The disruption in the currency's role as instrument of payment is minor; most transactions continue to be cleared in the national currency even though - sometimes legally, more often illegally - foreign currencies may be used for some domestic payments. The main difficulties are encountered in the currency's role of reserve of value. This aspect is well-known. When the annual rate of inflation is 500%, for example, it is not advisable to keep any saving in the form of monetary assets, unless a mechanism of compensation against inflation is established explicitly through indexation or implicitly through high market rates of interest. Perhaps less obvious is the crisis of the currency's role as unit of account even for short periods of time. This aspect is, of course, connected with the previous one. Even within a period of one year, the value (i.e., the purchasing power) of the currency diminishes sharply when inflation is high, with the result that the sum of the values of transactions which take place at different times of the year is not at all easy to interpret. If all transactions were evenly distributed and inflation regular during the year, it could be said that the unit of account is the mid-year value of the currency. However, this condition is not fulfilled in practice. This means that under high inflation flows as conventionally measured give a distorted picture of the economic structure.

70. On certain aspects, the SNA provide rules which, rigorously applied, are capable of providing correct measures. For example, rules related to time of recording transactions are essential: transactions have to be recorded at the same point of time in the various accounts in question for both transactors. Differences in the time of recording by transactors have much more serious negative effects of course when inflation is high.

71. A particular and very important aspect concerns transactions and balancing items that are measured by the difference between flows. This is the case, for example, for trade margins measured as the difference between sales and the purchase value of the goods which are sold (the method followed in practice being very often: sales less purchases plus changes in inventories). The correct measurement of trade margins at any point of time supposes that the purchase value of the goods sold is the price prevailing at this time, not at the time the purchase has been actually made. In other words, it means that changes in inventories have to reflect adequately the difference in value between entries to and withdrawals from inventories valued

at prices at the time of entry and withdrawal, respectively. (See <chapter VI, Production Account>.)

72. The measurement of value added is a very important case in point when the process of production extends over a long period of time (under high inflation "long" is usually much shorter than when inflation is low) and there is a significant lag between intermediate consumption and the recording of output. (In agriculture, for example, harvesting may even take place in a different calendar year). In principle, the System provides the solution for correct measurement. It relies upon careful recording of work in progress. In effect, if intermediate consumption takes place mainly, for example, in the first part of the year and output (harvests or, in other cases, deliveries taken as a measure of output) is recorded mostly in the second part of the year, under high inflation value added will be overestimated. Since compensation of employees is recorded when due or paid, the figure for operating surplus is heavily distorted. Of course, for agriculture if harvests occur mainly in the first half of the year and intermediate consumption in the second, the distortion is inverted.

73. The solution, in such cases, in principle, is to record output progressively, as work in progress. Then at the end of the process of production, the previously recorded work in progress is withdrawn from inventories after due revaluation, while from the other side the output of finished products is entered in inventories at the prices prevailing at this time. This solution shows that, basically, the right rule of recording output and inventories is the perpetual inventory method, careful attention being paid to the recording of work in progress. This is true for business accounts and national accounts as well. Departures from this ideal treatment cause more significant biases when inflation is high. In practice, the right solution may be difficult to apply, especially if business accounts do not provide adequate data. However, it should be approximated as far as possible, in order to minimize distortions.

74. Applying the System's solutions referred to in the previous paragraphs is a means of trying to get correct measures as far as it is feasible. They do not solve however the difficulty under high inflation related to the loss of meaning of the unit of account. Rigorously, a unit of the currency at the beginning of the year is not additive with a unit of the currency in the last months of the same year. Strictly speaking, this holds <u>every</u> time the purchasing power of the currency changes, even when the rate of inflation is low. However, under normal conditions (low inflation) it is assumed that over a short period of time (one year) the loss of significance of the currency as a unit of account is limited. For longer periods, this assumption is not acceptable, and comparisons are made either at constant prices (for goods and services) or in real terms (constant purchasing power of the currency). A short period of hyper-inflation involves the same measurement problems as a much longer period of low inflation.

75. As explained above, because transactions are not evenly distributed and inflation is not regular during the year, it may not be assumed that the

implicit unit of account is the mid-year currency. Consequently, the economic relations are distorted. Phenomena occurring mainly in the first part of the year have their shares understated; those occurring mainly in the last part of the year have their shares, conversely, overstated.

76. In order to avoid such distortions, it would be possible to use the currency at a certain point or during a short period of time (one month, for example) as the unit of account. All transactions would then be revalued at the (constant purchasing power of the) currency at the chosen point or period by applying to current values an indicator of the change in the general price level. Applying such a procedure systematically might, of course, be burdensome, but it might be appropriate to implement it for certain flows or certain aggregates only, possibly using simplified methods of calculation.

77. Because of the difficulties in interpreting national accounts in current values, one could conclude that it is useless to establish these accounts. However, they remain necessary for use in conjunction with monetary and financial variables. Further, under such circumstances more emphasis should be given to accounts covering shorter time periods. As monthly accounts are obviously impracticable, except for some items, quarterly accounts covering more than just GDP and its uses would be of great value for analysis. The use of the currency as a unit of account on a quarterly basis, while subject to the general criticism in principle, provides results which are easier to interpret than annual data, at least if hyper-inflation is avoided. In addition, quarterly accounts might provide a short-cut method for determining annual accounts, using the average value of the currency in a given quarter as the unit of account.

78. Constant price estimates, which play an important role in national accounting in general, are given even more emphasis when inflation is high for flows of goods and services and the Production Account. As far as possible, it is probably appropriate to attempt to estimate volume increases directly rather than rely on deflation methods applied to current prices. In effect, the degree of approximation in the measurement of price changes may well be of the order of magnitude of the volume changes. The danger is increased when the base-period for price increases is very out of date.

79. In general, frequent rebasing of national accounts in constant prices is advisable when changes in relative prices are important. The choice of the base period, which is always a delicate one, may be especially complex under high inflation due to the fact that price adjustments are irregularly timed. Studying how relative prices move in the short-, medium- and long-term in periods of high inflation, as compared with other periods, is of particular importance.

80. To assess the effects of inflation, it is not sufficient to measure only flows in the current accounts and in the Capital and Financial Accounts of the System. This is so because inflation may redistribute wealth and because changes in real wealth due to inflation may amplify or counterbalance changes in these flows. The Revaluation Account of the System, which shows real

holding gains and losses incurred by institutional sectors and the rest of the world according to the types of assets and liabilities they hold, is of special importance in this context.

81. Calculating these gains and losses supposes, of course, that a country has previously established sector balance sheets. Establishing sector balance sheets for financial assets and liabilities is of prime importance because the dramatic changes in the purchasing power of the currency when inflation is high undermine its role as a reserve of value. The face value of monetary assets covers a vanishing real value of these assets. For interest-bearing monetary assets and liabilities (non-interest bearing monetary assets may hardly exist when inflation is high, except at the minimum level necessary for current payments), the decrease in their real value is generally compensated, at least in part, by explicit indexation or inclusion of an element compensating for inflation in the rate of interest. This means that nominal interest, under these circumstances, includes a component which may be viewed as an anticipated reimbursement/refund of the real value of the principal of the financial liability/asset.

82. The higher the rate of inflation, the quicker is this process of reimbursement/refund. This element should not be considered as a return to capital by the lender and a current cost by the borrower. The System treats these components of explicit or implicit indexation as interest received and paid in the current accounts, and this treatment does not create great difficulties when inflation is low. However, the measurement of these components is essential when inflation is high if one wants to interpret correctly figures such as government disposable income or saving (or government deficit) and the corresponding figures for creditor sectors, etc. For this reason, the System recommends showing real holding gains and losses on monetary assets as memorandum items to the current accounts. Countries with high inflation would benefit greatly from following this procedure and, in addition, giving great emphasis to a careful scrutiny of holding gains and losses in the Revaluation Account.

83. Going one step more, countries experiencing significant inflation may want to apply a parallel treatment of interest that gives a more meaningful picture of the economy under such circumstances. Such a possible treatment is described in an annex to this chapter.

H. Quarterly Accounts

84. When using the System for short-term analysis, annual accounts are not sufficient because they do not generally permit the various short-term movements to be followed as close as necessary. On the other hand, relying only on the analysis of short-term indicators is not an adequate alternative for various reasons. These indicators are very often incomplete in terms of coverage, and economic inter-relations are not always easily understandable through them. Further, changes in annual national accounts figures and in the corresponding statistical indicators may differ. National accounts try to be

exhaustive, and they result from a process of trade-off and adjustment between basic data which are not fully consistent. Consequently, quarterly accounts tend to be broadly used in conjunction with short-term indicators, either current statistics or subjective business surveys. They are increasingly implemented in developing countries as well as in developed ones.

85. Of course, no country establishes the complete System, including balance sheets, for every quarter. The coverage of quarterly accounts varies very much from country to country. It consists in many cases of a calculation of GDP only, using a value added approach by broad economic categories, or a balance between GDP and its uses. At the other extreme, some countries try to cover most of current accounts and capital and financial accounts. As indicated above, quarterly accounts which are as complete as feasible may help overcome the difficulties of interpretation encountered with annual accounts in high inflation. Quarterly accounts for general government may facilitate the transition from fiscal year to calendar year when the first one is different.

86. Quarterly accounts are based on intensive use of short-term statistical indicators. Some data used for annual accounts - for example, accounting data - are not available more frequently. When they are, they may not be fully available in time for early estimates. However, short-term indicators should be used with caution. Combinations of these indicators may differ from the corresponding annual national accounts figures. For instance, the annual changes of industrial output measured through monthly or quarterly surveys may differ from the results of annual surveys, where establishments and products are generally better covered, and both may differ from national accounts, which have to make estimates for the missing items, to use additional data and to check the overall consistency of the accounts. Because short-term statistics must be adjusted when used for quarterly accounts purposes, the most specific contribution of quarterly accounts work to national accounting is the study, generally using econometric methods, of the relationship between annual accounts figures and corresponding short-term indicators. 5/

87. Apart from deciding which parts of the System and what level of detail to use, quarterly accounts do not in general need adaptation of the conceptual framework. However, the correct definition and measurement of quarterly output requires much attention to be paid to the analysis of changes in inventories in general and work in progress in particular. The latter may have greater implications for the allocation of output between different quarters than between different years (for which it is nevertheless non-negligible). This is especially important for industries in which the process of production extends over a long period of time. In many cases output may not be at all correctly approximated by recording goods and services when they are finished. Agriculture is of course a good case in point. See

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5/ However, preliminary estimates of annual accounts, especially when incomplete data are available, must benefit from quarterly accounts methodology.

<<paragraphs 72 and 73>> above which already refer to this problem in connection with the problems of high inflation.

I. Regional Accounts

88. Regional accounts are of special importance when there are important gaps between the economic and social development of the various regions of a country.

89. A full system of accounts at the regional level implies treating each region as a different economic entity. In this context, transactions with other regions become a kind of external transactions. External transactions of the region have, of course, to distinguish between transactions with other regions of the country and transactions with the rest of the world.

90. Three types of institutional units have to be considered in the context of regional accounts. Firstly, there are regional units, the centre of interest of which is in one region and most of their activities take place in this region. Among regional units are households, corporations whose establishments are all located in the region, local and state governments, at least part of social security and many NPIs serving households. Secondly, there are multi-regional units, the centre of interest of which is in more than one region but does not relate to the country overall. Many corporations and a number of NPIs are in this situation. Finally, a small number of units are national units, which means that their centre of interest is really not located geographically even in the sense of multi-regional location. This is the case of central government and may be the case for a small number of corporations (probably public), generally in a monopolistic or quasi-monopolistic situation, like the national railway corporation or the national electricity corporation.

91. Locating transactions of the regional institutional units does not raise any conceptual problem. These units are clearly regional resident units. Allocating the transactions of multi-regional units between various regions raises more difficulties. Even when these transactions are physically locatable, like output, it is necessary to actually value intra-corporate flows between establishments located in different regions. The System recommends including inter-establishments deliveries in the definition of output and this is especially important for regional accounts. A further consideration is that part of the transactions of multi-regional units is not, strictly speaking, regionalizable, in concept. This is the case for most property income and transactions in financial instruments. Consequently, balancing items of multi-regional units may not be unambiguously defined at the regional level for multi-regional units except value added and perhaps operating surplus. This means that, by definition, multi-regional institutional units may not be broken down in a number of regional institutional units.

92. One could argue that the measurement problems for multi-regional corporations are very similar to those of multi-national corporations. There is obviously some similarity between these two kinds of enterprises. However, in the case of multi-national corporations, national legislation and other considerations generally lead to establishing different legal entities in different countries. Even if these legal entities are not fully independent and the valuation of their external transactions within the same multi-national corporation are not based on true market values, these units fulfil the conditions necessary to be treated as institutional units in the System. Only foreign branches which are not established as separate legal entities are in more or less the same situation as establishments belonging to multi-regional corporations. However, in the accounts of the nation as a whole, they are few in number and play a marginal role. Conventions of measurement in their case do not have an important impact on national accounts results. Moreover they are generally obliged to submit certain data. In regional accounts, on the contrary, these units are very common.

93. The location of national institutional units raises more complex issues. In their case, breaking down their centre of interest between all the regions is conceptually dubious. Those units do not seem properly regionalizable. Of course, this does not mean that many transactions they carry out cannot be located in the regions, like sales of electricity and railway services or compensation of employees paid by central government. But it is not conceptually possible to regionalize their accounts totally. For instance, interest on the public debt payable by central government may not be geographically located (even when this interest is locatable when receivable by other units). The same is true for interest on their debt payable by national corporations. This probably leads to considering the introduction, in addition to the regions, of a kind of national sector, not allocated as such between the regions or constituting an extra-region. This national sector would have establishments located in the regions.

94. One may think of allocating all transactions of multi-regional units or even national units between regions according to some rules of thumb. However, this should not be considered simply as a practical approximation. It implies a conceptual adaptation of the System. The reasons which prevent including a full sequence of accounts for establishments/industries in the central framework also forbid, in principle, completely distributing all institutional units and their accounts between regions, which means, in principle, building up a full set of accounts for establishments.

95. These conceptual difficulties partly explain why no country establishes the complete System for every region. In most cases regional accounts are limited to recording production activities (with conceptual problems arising for locating some of them, like transportation and communication) by industry and more complete accounts for institutional sectors composed of regional units, like households and local and state government. Establishing accounts for goods and services and input-output tables by region does not raise unsolvable conceptual issues, deliveries to and from other regions being, of course, treated as exports and imports. However, the practical difficulties

are very important in the absence of a sophisticated system of transport statistics.

96. Nonetheless regional accounts, even with the limitations mentioned above, are a very useful tool for economic policy. Partial regional accounts may be inserted in a set of regional statistical indicators on labour participation, unemployment, poverty, etc. The greater the contrast between the regions in a country, the more useful is such a system of regional indicators, including GDP per capita according to broad economic categories, household disposable income and household consumption per capita. It is up to the countries themselves to devise their own regional accounts and statistical indicators, taking into consideration their specific circumstances, data system and resources which might be devoted to this work.

CHAPTER XIX ANNEX
A PARALLEL TREATMENT OF INTEREST UNDER SIGNIFICANT INFLATION

A. Introduction: Two ways of Adjusting Nominal Interest in the Context of Significant Inflation

1. Countries experiencing significant inflation may want to adjust nominal interest in order to get more meaningful measures of primary incomes, disposable income and saving of the various institutional sectors and possibly the total economy. Two main approaches may be followed:

(1) Deduct from nominal interest (leaving aside here the possible service charge component in case of interest receivable/payable by financial intermediaries except insurance corporations and pension funds) the amount which has been or would have been necessary in order to keep the purchasing power of the capital intact (the capital being the principal of the financial asset/liability to which the interest refers);

or

(2) Deduct from nominal interest the component of protection against inflation of the principal of the asset which is actually included in nominal interest.

2. The first approach is usually referred to as the calculation of "real interest". Real interest is the excess of nominal interest on monetary assets over the amount which has been or would have been necessary in order to fully protect the creditor against inflation. The latter amount is calculated using an index representative of the change in the general purchasing power of the currency. When nominal interest is higher than the amount necessary to keep capital intact, real interest is positive. When nominal interest is lower than the amount necessary to keep capital intact, real interest is negative.

3. Real interest combines nominal interest and real holding gains/losses on the underlying assets/liabilities. For this reason, however, real interest may not be introduced in the central framework of the SNA. In effect, it is a basic principle of the SNA central framework that holding gains or losses should not be recorded in the current accounts of the System, but only in the Revaluation Account. This is true for nominal holding gains/losses (and a fortiori real holding gains/losses) on all types of assets/liabilities. Thus real interest as well as other adjustments of current incomes for real holding gains/losses may only be introduced in a satellite construct (see for instance <<paragraphs of chapter XXI, Satellite Analysis and Accounts>>).

4. For the second approach, which consists of deducting from nominal interest the component of protection against inflation of the principal of the asset which is actually included in nominal interest, the component of

protection against inflation may not, by definition, be greater than nominal interest itself. It may only be lower than or equal to nominal interest (continuing to leave aside the service charge issue). In order to avoid any confusion with real interest from one side, and interest as currently defined in the central framework from the other side, let us call "interest prime" the excess of nominal interest over the component of protection against inflation of the principal of the asset actually included in nominal interest. By definition, "interest prime" is positive if nominal interest is higher than the actual component of protection against inflation included in nominal interest. It is equal to zero if nominal interest is equal to this actual component of protection against inflation. It is never lower than zero because by definition the actual component of protection against inflation included in nominal interest may not be greater than nominal interest itself.

5. Real interest and interest prime serve different purposes. Interest prime takes into account the actual influence of inflation on nominal interest, by deducting from the latter the actual component of protection against inflation of the principal of the asset which it includes. Real interest takes into account the impact of inflation on the purchasing power of the underlying assets, by deducting from the nominal interest the amount which has been or would have been necessary in order to keep the purchasing power of the asset intact.

6. Reflecting their different purposes, real interest and interest prime have different roles and places in the SNA. Real interest is a very useful analytical tool; as already said in <<paragraph 3>>, it may be calculated as a satellite construct, something which the System strongly recommends. Interest prime, whereas it does not go so far as real interest, allows for a possible adjustment of nominal interest in the SNA central framework itself in the context of significant inflation. Under significant inflation, interest prime is a measure of interest in current terms, whose definition is closer than nominal interest to the definition and measure of other property income in the current accounts of the System. 1/

1/ In effect in the case of other property income, such as dividends, the protection against inflation of the value of the underlying asset is sought through the change in the market prices of the underlying assets, such as shares, recorded in the Revaluation Account. This element is not included in dividends in current terms. Thus, in terms of economic significance, the meaning of "interest prime" is close to the meaning of dividends. Both "interest prime" and dividends may then be adjusted for real holding gains/losses, outside the central framework, in order to get real interest or real dividends (not to be confused with interest in real terms or dividends in real terms). Also, it is worth noting that, in terms of economic significance, the meaning of the sum of dividends and holding gains/losses on shares is close to the meaning of nominal interest. This shows that "interest prime" is actually a substitute for nominal interest and not for real interest.

7. Real interest and interest prime coincide when the component of protection against inflation actually included in nominal interest is strictly equal to the amount necessary in order to give the creditor full protection against inflation. Otherwise, they differ from each other. The component of protection against inflation of the principal of the asset actually included in nominal interest and used to calculate interest prime may fall short of the amount which would have been necessary in order to protect totally the asset against inflation. In such cases, real holding gains are obtained by the debtors and real holding losses incurred by the creditors. They may be combined with interest prime, outside the central framework, in order to get real interest.

B. A Parallel Treatment of Interest Under Significant Inflation within the Central Framework

8. The rest of this annex presents a parallel treatment of interest under significant inflation consisting in the recording of interest prime in the central framework.

9. In the SNA central framework, because holding gains/losses are never recorded in the current accounts, both an income and a possible real holding gain or loss on the corresponding asset may exist at the same time. In terms of contracts between transactors, this may be interpreted as implying two different contracts: the first one concerns current income - that is, the agreement on the amount required by an institutional unit for putting an asset at the disposal of another unit; the second one is the agreement on a price adjustment mechanism applicable to the value of the asset itself. In a number of cases, the price adjustment mechanism is explicit. It is the market price of the asset in question when it exists (shares, land); it is the rate of exchange for financial assets/liabilities denominated in foreign currency; it may be the price of another asset, good or service, or a price index, general or specific, used in index-linking. In other cases, when only nominal interest exists and there is no index-linking of the principal of a financial asset/liability, the price adjustment mechanism is implicit, which of course complicates the picture. Either explicit or implicit, the price adjustment mechanism of the principal of the asset/liability determines the component of protection against inflation actually included in nominal interest.

10. The issue of the service charge component of interest is left aside in this annex, except briefly at the end. Of course, it has to be taken into account in practice.

11. The case of financial instruments denominated in foreign currency is simple. The central framework as described in the various chapters already follows a treatment which is consistent with the method applied in this annex. The price adjustment mechanism applicable to the value of the asset/liabilities in question is the change in the relevant rate of exchange. Interest prime is thus simply what is presently called interest in the accounts of the rest of the world. Incidentally this shows that interest in

the relations with the rest of the world is different in nature from nominal interest recorded on assets denominated in national currency.

12. The identification of the component of protection against inflation of the principal of the monetary assets denominated in national currency and of interest prime is straightforward in the case of index-linked financial instruments. In effect, in this case, the two elements are explicitly distinguished in practice (they are combined afterwards by the SNA central framework under nominal interest). The amount which results from the revaluation of the principal of the financial assets/liabilities in question through the existing explicit index-linking mechanism is the actual element of protection of the creditor against inflation. Under such circumstances, interest prime is therefore equivalent to what is currently called interest. Of course, it includes the amount corresponding to the index-linking of interest itself, if such a mechanism exists. (The index-linking of interest must be distinguished from the index-linking of the principal.)

13. The identification of these two components of nominal interest is less simple when there is no explicit price adjustment mechanism applicable to the principal of the financial assets/liabilities in question. In such a case, only nominal interest is observable, and it includes both a component of protection against inflation and a possible interest prime. A breakdown between these two elements may only be approximate. Two main types of situation may be encountered:

(1) In the first situation, non-index-linked financial instruments coexist with index-linked ones. In such a situation, it is possible to apply to the first instruments the same rate of interest prime, or the same price adjustment mechanism - that is, the same index - or the same proportion between the two components as for index-linked instruments.

(2) In the second situation, only non-index-linked financial instruments exist. In such a situation, the simplest procedure seems to be to take the ex-post rate of inflation as approximating the implicit price adjustment mechanism. Then interest prime is the excess of nominal interest over the component of protection against inflation of the principal of the asset actually included in nominal interest, the latter being determined as indicated in the previous sentence. As explained in <<paragraph 4>>, interest prime is by definition positive or equal to zero.

14. The existence of a margin of uncertainty in the cases covered in the previous paragraph should not be cause for alarm. When inflation is significant, this margin of uncertainty is much less important than the error made when recording nominal interest in the current accounts. In conditions of high inflation, the margin of uncertainty becomes marginal as compared with this recording of nominal interest.

C. The Accounting Treatment in Detail

15. Supposing now that interest prime is known or has been estimated, the full accounting treatment must be described. This is done first by explaining the accounting entries as such; then numerical examples are provided.

16. In the Primary Distribution of Income Accounts, interest prime is recorded.

17. In the Revaluation Account, the amount which corresponds to the revaluation of the principal of the financial assets\liabilities in question, through the explicit or implicit price adjustment mechanism, is recorded as nominal holding gains/losses. Thus, the explicit mechanism if there is index-linking of the principal, or the approximation of it in the case of nominal interest, is equivalent to a change in the specific price of the financial instrument in question. The amount entered as nominal holding gains/losses is the following, for the three types of financial instruments which have been distinguished:

(1) For financial instruments denominated in foreign currency, it is the change in value of the stock of assets and liabilities which results from the change of the exchange rate.

(2) For index-linked financial instruments denominated in national currency it is straightforwardly the amount which results from the application of the index-linking mechanism.

(3) For non-index-linked financial instruments (denominated in national currency), it is the difference between the amount of nominal interest and the amount of interest prime which has been estimated and recorded in the Primary Distribution of Income Accounts.

18. The financial assets/liabilities are then recorded in the balance sheets at a value which includes these nominal holding gains or losses (in principle on a perpetual inventory basis).

19. The Financial Account records the part of the principal of the assets/liabilities which is refunded in a given period, including the revaluation component, as a change in assets and a change in liabilities of the creditor and the debtor, respectively. It is important to interpret correctly the refunding of the element which originates in the revaluation mechanism. Two cases must be considered:

(1) In the first case, the revaluation element which is refunded in a given period corresponds to the accumulated revaluation of that fraction of the nominal value of the principal which is repayable during this period. The total refunding (the initial nominal and the revaluation element) thus represents an equivalent fraction of the approximate initial purchasing power of the principal.

(2) In the second case, the revaluation element which is refunded in a given period corresponds to the full value of the revaluation that occurred during this period. It is actually payable. This procedure is to be analysed as an accelerated repayment of a part of the initial purchasing power of the principal of the financial asset/liability in question. This case corresponds both to certain index-linked financial instruments denominated in national currency, depending on the contractual arrangements, and to all non-index-linked financial instruments (denominated in national currency) bearing only nominal interest.

20. Of course, the changes in assets and liabilities recorded in the Financial Account are then balanced by equivalent decreases in the value of the stocks of financial assets/liabilities in the balance sheets.

21. Turning to the Revaluation Account, it remains to calculate the real holding gains or losses by subtracting the neutral holding gains/losses from the nominal holding gains or losses (see <<paragraph 17>>). Again the various types of financial instruments previously distinguished may be considered separately:

(1) For financial instruments denominated in foreign currency, a country incurs real holding gains, as a creditor, if the rate of exchange (number of units of the national currency per unit of the foreign currency) increases more than the general price level, or as a debtor, if the rate of exchange increases less than the general price level. Conversely, a country incurs real holding losses, as a creditor, if the rate of exchange increases less than the general price level, or as a debtor, if the rate of exchange increases more than the general price level.

(2) For index-linked financial instruments denominated in national currency, there is a real holding loss for the creditors and a real holding gain for the debtors if the index used for index-linking increases less than the general price level. Conversely, there is a real holding gain for the creditor and a real holding loss for the debtor if the index used for index-linking increases more than the general price level.

(3) For non-index-linked financial instruments (denominated in national currency), the two types of situation encountered in <<paragraph 13>> must be distinguished again. In the first one (these instruments are treated by reference to coexisting index-linked instruments), the analysis is the same as that above (see (2)). In the second type of situation (only non-index-linked instruments exist), real holding gains for the debtors/losses for the creditors appear when the rate of ex-post inflation is higher than the nominal rate of interest.

22. Some numerical examples may illustrate what is explained above:

(1) Financial instruments denominated in foreign currency: a non-financial corporation borrows from a foreign bank, on the first of January, 100 units of foreign currency, the exchange rate being 10 at that time, at an interest rate of 12%. Interest is payable at the end of the year, and the principal is also refunded at that time. The general price index is 300 at the end of the year (against 100 at the beginning) and the exchange rate is 27. The entries in the accounts are the following, in national currency:

- The primary distribution of income accounts record 324 2/ (12 x 27) as interest payable by non-financial corporations to the rest of the world.

- The Financial Account records:

  + 1000 (100 x 10) as a change in liabilities of non-financial corporations (a change in assets of the rest of the world) under loans;

  - 2700 (100 x 27) as a change in liabilities of non-financial corporations (a change in assets of the rest of the world) under loans.

  The corresponding entries under currency and deposits, assuming the payments are made simultaneously, are the following:

  + 1000 - 2700 - 324 as changes in assets for non-financial corporations;

  + 1000 - 2700 - 324 as changes in liabilities for the rest of the world.

- The Revaluation Account records:

  1700 (2700 - 1000) as a nominal holding loss for non-financial corporations (revaluation of a liability) and as a nominal holding gain for the rest of the world (revaluation of an asset);

  1700 as a nominal holding loss for the rest of the world (revaluation of the initial 1000 additional liability under currency and deposits); these 1700 are counterbalanced somewhere by an equivalent holding gain of the resident

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2/ It may be noted that the ex-post rate of interest, assuming a regular adjustment of the rate of exchange is 17.5%.

unit(s) holding the 100 units of foreign currency during the year (of course the story may be a bit more complex).

The balance sheets record the corresponding changes:

for non-financial corporations:

financial assets: + 1000 - 2700 - 324 3/

liabilities: + 1000 + 1700 - 2700

for the rest of the world:

financial assets: + 1000 + 1700 - 2700

liabilities: + 1000 + 1700 - 2700 - 324

for some other resident unit(s)

financial assets: + 1700

- The real holding gains or losses are obtained by subtracting 2000, the amount of the neutral holding gains/losses (1000 x 2), from the nominal holding gains losses (1700); they are + 300 (gain) on liabilities, - 300 (loss) on assets.

(2) Index-linked financial instruments denominated in national currency: A non-financial corporation borrows 2000 for two years from a resident bank, on the first of January, at an interest rate of 15%; interest is payable at the end of the year, and the principal is refunded half at the end of the first year and half at the end of the second year. The principal is indexed on the internal wholesale price index, which is 300 at the end of the first year, against 100 at the beginning. Only the entries during the first year are described here; they are as follows:

- The Primary Distribution of Income Account records 300 as interest payable/receivable.

- The Financial Account records:

  + 2000 as a change in liabilities of the corporation, a change in assets of the bank, under loans;

3/ These entries refer only to the transactions directly linked to the foreign loan. In addition, the non-financial corporation in question may have acquired domestic assets using the 1000 borrowed at the beginning of the year and nominal holding gains are to be recorded on these assets, an increased operating surplus may have been obtained, etc.

- 3000 (1000 + 2000) as a change in liabilities of the corporation, a change in assets of the bank.

The corresponding entries, under currency and deposits, assuming the payments are made simultaneously through the account of the corporation in the same bank, are as follows:

+ 2000 - 3000 - 300 as changes in assets of the non-financial corporation;

+ 2000 - 3000 - 300 as changes in liabilities of the bank.

- The Revaluation Account records 4000 (2000 x 2) as a nominal holding loss for the non-financial corporation (revaluation of a liability) and a nominal holding gain for the bank (revaluation of an asset). It must be noted that 2000 nominal holding gain or loss corresponds to the part of the loan which is repayable at the end of the first year, whereas the other 2000 refers to the rest of the loan.

- The balance sheets record the corresponding changes:

for the non-financial corporation:

financial asset:	+ 2000 - 3000 - 300 4/
liabilities:	+ 2000 - 3000 + 4000

for the bank:

financial assets:	+ 2000 - 3000 + 4000
liabilities:	+ 2000 - 3000 - 300

- Real holding gains/losses: If the change in the general price level is 300, the same as the wholesale price index used for index-linking, there are no real holding gains/losses, because the neutral holding gains/losses are equal to the nominal ones. If the change in the general price level is higher, for instance 310, the real holding gains are 200 for the debtor, and the creditor incurs a real holding loss of 200 (the neutral holding gains/losses are 4200 in his case). If the change in the general price level is lower, for instance 295, the debtor incurs a real holding loss of 100 and the creditor has a real holding gain of 100 (the neutral holding gains/losses are 3900 in this case).

4/ See note 3.

Comments:

- The amount which is refunded at the end of the first year represents approximately half of the initial purchasing power of the amount borrowed/lent: 3000 (1000 + 2000) corresponds more or less to the initial value of 1000 in real terms (see <<paragraph 19 (1)>>).

- The rest of the loan existing in balance sheets at the end of the first year is also 3000 (1000 + 2000); it also corresponds to approximately half of the initial purchasing power of the loan.

- Corresponding to the apparent rate of interest (15%) there is actually a much lower rate, under the assumptions made, of 5% (300 - 200/2000) because the 300 paid at the end of the year is worth only 100 in terms of the initial purchasing power of the currency comparable with the amount borrowed/lent (2000). It is interesting to notice that when the revaluation of the principal is treated as interest and recorded in the current accounts, the apparent rate of interest is 215% (3000 + 4000/2000), instead of 15%, and the corresponding lower rate in terms of the initial purchasing power of the currency is 71.6%

(3) Index-linked financial instruments denominated in national currency, with the full value of the revaluation of the principle payable during the period in which this revaluation occurs (see <<paragraph 19 (2)>>): keeping the same assumption as in (2) except the one above, the entries during the first year are as follows:

- The Primary Distribution of Income Account records 300 as interest payable/receivable.

- The Financial Account records:

  + 2000 as a change in liabilities of the corporation, a change in assets of the bank, under loans;

  - 5000 (1000 + 4000) as a change in liabilities of the corporation, a change in assets of the bank (loans);

  + 2000 - 5000 - 300 as changes in assets of the non-financial corporation;

  + 2000 - 5000 - 300 as changes in liabilities of bank.

- The Revaluation Account records 4000 as a nominal holding loss/gain for the non-financial corporation and the bank, respectively.

- The changes in balance sheets are:

  for the non-financial corporation:

financial assets:	+ 2000 - 5000 - 300
liabilities:	+ 2000 + 4000 - 5000

  for the bank:

financial assets:	+ 2000 + 4000 - 5000
liabilities:	+ 2000 - 5000 - 300

- real holding gains/losses: no difference with case (2)

Comments:

- The amount (5000) which is refunded at the end of the first year corresponds to half of the principal falling due at that time, that is, 3000 (1000 + 2000), plus 2000 which results from the revaluation of the rest of the principal. This payment of 2000 represents an accelerated repayment of approximately the two-thirds of the initial purchasing power of that part of the principal which remains in the balance sheets at the end of the first year.

- The nominal value of the part of the loan which remains in the balance sheet at the end of the first year is 1000 (note the difference with case (2)). It is easy to verify that it corresponds to approximately one-third of its initial purchasing power.

(4) Non-index-linked financial instruments (which are in national currency): the same example is used except that there is a nominal rate of interest of 215%. Interest prime is calculated using the ex-post index of inflation, which is supposed to be 300 (against 100 at the beginning of the year). The nominal interest (4300) is thus broken down between a revaluation component (4000) and a component of interest prime (300). The entries are then the same as that in case (3) above and the same comments are relevant in general. Under the assumptions of this example, there would be no real holding gain or loss. In addition, it should be noted that if the index of general price level were 325 instead of 300, interest prime would be zero, the nominal holding gains/losses would be 4300 (corresponding in this situation to the total amount of nominal interest) and a real holding gain/loss of 200 would be recorded, as the neutral holding gain/loss is 4500 (2000 x 2.25).

D. A Link with the Calculation of the Output of Financial Intermediaries

23. In the last example above, interest prime is zero. This may happen especially when there is no explicit index-linking of the principal of financial instruments in a country, which is not an uncommon situation. Under such circumstances, the value of the output of financial intermediaries indirectly measured continues to be calculated as the "global interest margin" (property income receivable except on own funds, less interest payable), using nominal interest. It is this "global interest margin" that corresponds to the financing of the costs of production and operating surplus of financial intermediaries. This follows from the assumption that nominal interest charged to debtors of the intermediaries should cover as a priority the implicit service charges and that, similarly, the fraction of interest not included in the nominal interest payable to creditors of the intermediaries covers, as is obvious, the implicit service payment charged to these creditors. It follows that, in such a situation, interest prime receivable by creditors of financial intermediaries is calculated as nominal interest receivable less implicit revaluation of the principal of their claims (not higher than the nominal interest itself) plus interest prime received in kind. Interest prime payable by debtors of financial intermediaries is calculated as nominal interest payable less service charges included in nominal interest less implicit revaluation of the principal of their liabilities (not higher than the previous difference).

TABLE XIX.1 SUB-SECTORING OF HOUSEHOLDS

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SOCIO-ECONOMIC STATUS	ECONOMIC ACTIVITY	TYPE AND/OR SIZE OF ENTERPRISE	SKILL	LOCATION
EMPLOYERS	agriculture mining, manufact. & construction services	formal/ informal size		urban/ rural
OWN-ACCOUNT WORKERS	agriculture mining, manufact. & construction services	formal/ informal		urban/ rural
EMPLOYEES	agriculture mining, manufact. & construction services		high medium low	urban/ rural
RECIPIENTS OF PROPERTY AND TRANSFER INCOME PROPERTY PENSIONS OTHER TRANSFERS				urban/ rural

TABLE XIII 2 INTEGRATED ECONOMIC ACCOUNTS FOR THE HOUSEHOLD SECTOR

09 Jul 92
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ACCOUNT	TOTAL	EM-PLOYERS	OWN ACCT WORKERS	EM-PLOYEES	RECIPIENTS OF PROP & TRANSFER INCOME: PROP INC	PEN-SIONS	OTHER TRANSF		TRANSACTIONS AND BALANCING ITEMS	RECIPIENTS OF PROP & TRANSFER INCOME: OTHER TRANSF	PEN-SIONS	PROP INC	EM-PLOYEES	OWN ACCT WORKERS	EM-PLOYERS	TOTAL	ACCOUNT
I								P 1	Output								I
PRODUCTION								P 2	Intermediate consumption								PRODUCTION
								B 1g	Value added gross (I)								II 1
								K 1	Consumption of fixed capital								GENERATION
								B 1n	VALUE ADDED NET								OF INCOME
								D 1	Compensation of employees								
								D 11	* * Wages and salaries								
								D 12	Employers social contribution								
								D 121	Employers' actual social contributions								
II 1								D 122	Employers imputed social contributions								
									* by industry of origin								
									* by kind of labour (skill educ sex age)								
GENERATION								D 2 - D 3	Taxes less subsidies on production and imports								
OF								D 21 - D 31	taxes less subsidies on products								
INCOME								D 29 - D 39	Other taxes less subsidies on production								
								B 2g	Operating surplus, gross								II 2
								B 3g	Mixed income, gross								
								B 2n	OPERATING SURPLUS, NET								
								B 3n	MIXED INCOME, NET								APPRO-
									* by industry of origin								PRIATION
									* formal/informal								OF PRIMARY
									* modern/traditional								INCOME
								D 4	Property income								
II 2								D 41	Interest								
								D 42	Distributed income of corporations								
								D 421	Dividends								
APPRO-								D 422	Withdrawals from income of quasi - corporations								
PRIATION								D 43	Reinvested earnings of direct foreign investment								
OF PRIMARY								D 44	Property income attributed to insurance policy holders								
INCOME								D 45	Rent								
								B 5g	Balance of Primary incomes gross								
								B 5n	BALANCE OF PRIMARY INCOMES NET								

								D 5	Current taxes on income, wealth etc.	
								D 61	Social contributions	
* *								D 611	Actual social contributions	
								D 6111	Employers actual social contributions	
								D 6112	Employees social contributions	
II 2								D 6113	Social contributions by self- and non-employed persons	
SECONDARY DISTRI-BUTION OF INCOME								D 612	Imputed social contributions	
								D 62	Social benefits other than social benefit in kind	
								D 621	* * Social security benefits in cash	
								D 622	Private funded social benefits	
								D 623	Unfunded employee social benefits	
								D 624	Social assistance benefits in cash	
									* by type of risk covered	
								D 7	Other current transfers	
								D 71	Non-life insurance premiums less service charges	
								D 72	Non-life insurance claims	
								D 75	Miscellaneous current transfers	
									transfers between households	
									remittances from family members living abroad	
								B 6g	Disposable income, gross	
								B 6n	DISPOSABLE INCOME, NET	
									discretionary disposable income	
									disposable income in kind	
								D 63	Social transfers in kind	
								D 631	Social benefits in kind	
II 3								D 6311	* * Social security benefits, reimbursements	
REDISTRI-BUTION OF INCOME IN KIND								D 6312	Other social security benefits in kind	
								D 6313	Social assistance benefits in kind	
									* by type of risk covered	
									Transfers of individual non-market goods and services (not incl in soc benefits)	
								B 7g	Adjusted disposable income, gross	
								B 7n	ADJUSTED DISPOSABLE INCOME, NET	
									discretionary disposable income	
									disposable income in kind	
									social transfers in kind from gov./NPI	
								B 6g	Disposable income gross	
								B 6n	DISPOSABLE INCOME, NET	
								P 4	Actual final consumption	
								P 3	Final consumption expenditure	
									purchases (net)	
									bartered consumption goods and services in kind	
II 4									own account final consumption	
USE OF INCOME									subsistence economy	
									services of owner-occupied dwellings	
									domestic services	
									other	
									compensation of employees in kind	
									transfers in kind from non-government/ NPI origin	
									insurance service charge	
									implicit serv. charge br fin. intermed.	
								D 8	Adjustment for the change in net equity of households on pension funds	

										II 2
										SECONDARY DISTRI-BUTION OF INCOME
										II 3
										REDISTRI-BUTION OF INCOME IN KIND
										II 4
										USE OF INCOME

| | | |

K 11	Nominal holding gains /losses		
AN	Non - financial assets		
AN 1	produced assets		
AN 2	non - produced assets		
AF	Financial assets		
AF	Liabilities		
B 10 3	CHANGES IN NET WORTH DUE TO NOMINAL HOLDING GAINS/LOSSES		
AN	Non - financial assets	IV 1	OPENING BALANCE SHEET
AN 1	produced assets		
AN 2	non - produced assets		
AF	Financial assets		
AF	Liabilities		
B 90	NET WORTH		
	Total changes in assets	IV 2	CHANGES BETWEEN BALANCE SHEET
AN	Non - financial assets		
AN 1	produced assets		
AN 2	non - produced assets		
AF	Financial assets		
AF	Total changes in liabilities		
B 10	CHANGES IN NET WORTH DUE TO		
B 10 1	SAVING AND CAPITAL TRANSFERS		
B 10 2	OTHER CHANGES IN VOLUME OF ASSETS		
B 10 3	NOMINAL HOLDING GAINS/LOSSES		
B 10 31	neutral holding gains/losses		
B 10 32	real holding gains /losses		
AN	Non - financial assets	IV 3	CLOSING BALANCE SHEET
AN 1	produced assets		
AN 2	non - produced assets		
AF	Financial assets		
AF	Liabilities		
B 90	NET WORTH		

** indicates the first item of the breakdown in the full sequence of accounts for the household sector
* indicates a possible alternative breakdown

(1) All balancing items can be measured gross or net of consumption of fixed capital. The code for gross balancing item is constituted of the code for the item plus the letter "g". Similarly the letter "n" attached to a code indicates net values

(2) "Changes in net worth due to saving and capital transfers" is not a balancing item in the structure of the System. It is the total of the right - hand side of the capital account. However as a significant component of changes in net worth, it is coded with the other components of the latter

TABLE XIX 3 INTEGRATED ECONOMIC ACCOUNTS WITH PUBLIC SECTOR DETAILS AND NATIONAL/FOREIGN DISTINCTION
09-Jul-92
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USES

ACCOUNTS	TOTAL	GOODS AND SER-VICES (RES)	REST OF THE WORLD		TOTAL ECONOMY	NATIONAL PRIVATE SECTOR	FOREIGN CONTROLLED SECTOR	PUBLIC SECTOR					TRANSACTIONS AND BALANCING ITEMS
			PRIVATE SECTOR EXTERNAL TRANS-ACTIONS	PUBLIC SECTOR EXTERNAL TRANS-ACTIONS				TOTAL AFTER CONSOLI-DATION	TOTAL BEFORE CONSOLI-DATION	GENERAL GOVERN-MENT	FINANCIAL CORPO-RATIONS	NON-FINANCIAL CORPO-RATIONS	
I PRODUCTION/ EXTERNAL ACCCOUNT OF GOODS AND SERVICES													Imports of goods and services Exports of Goods and services Output Intermediate consumption Taxes on products (net) Value added, gross/GDP Consumption of fixed capital VALUE ADDED, NET/NDP. EXT. BAL. OF GOODS AND SERVICES
IV 3 CLOSING BALANCE SHEET													Non-financial assets Produced assets Non-produced assets Financial assets Liabilities NET WORTH

RESOURCES

PUBLIC SECTOR					FOREIGN CONTROLLED SECTOR	NATIONAL PRIVATE SECTOR	TOTAL ECONOMY	REST OF THE WORLD		GOODS AND SERVICES (USES)	TOTAL	ACCOUNTS
NON-FINANCIAL CORPORATIONS	FINANCIAL CORPORATIONS	GENERAL GOVERNMENT	TOTAL BEFORE CONSOLIDATION	TOTAL AFTER CONSOLIDATION				PUBLIC SECTOR EXTERNAL TRANSACTIONS	PRIVATE SECTOR EXTERNAL TRANSACTIONS			
												I PRODUCTION/ EXTERNAL ACCOUNT OF GOODS AND SERVICES
												II 1 1 GENERATION OF INCOME
												IV 3 CLOSING BALANCE SHEET

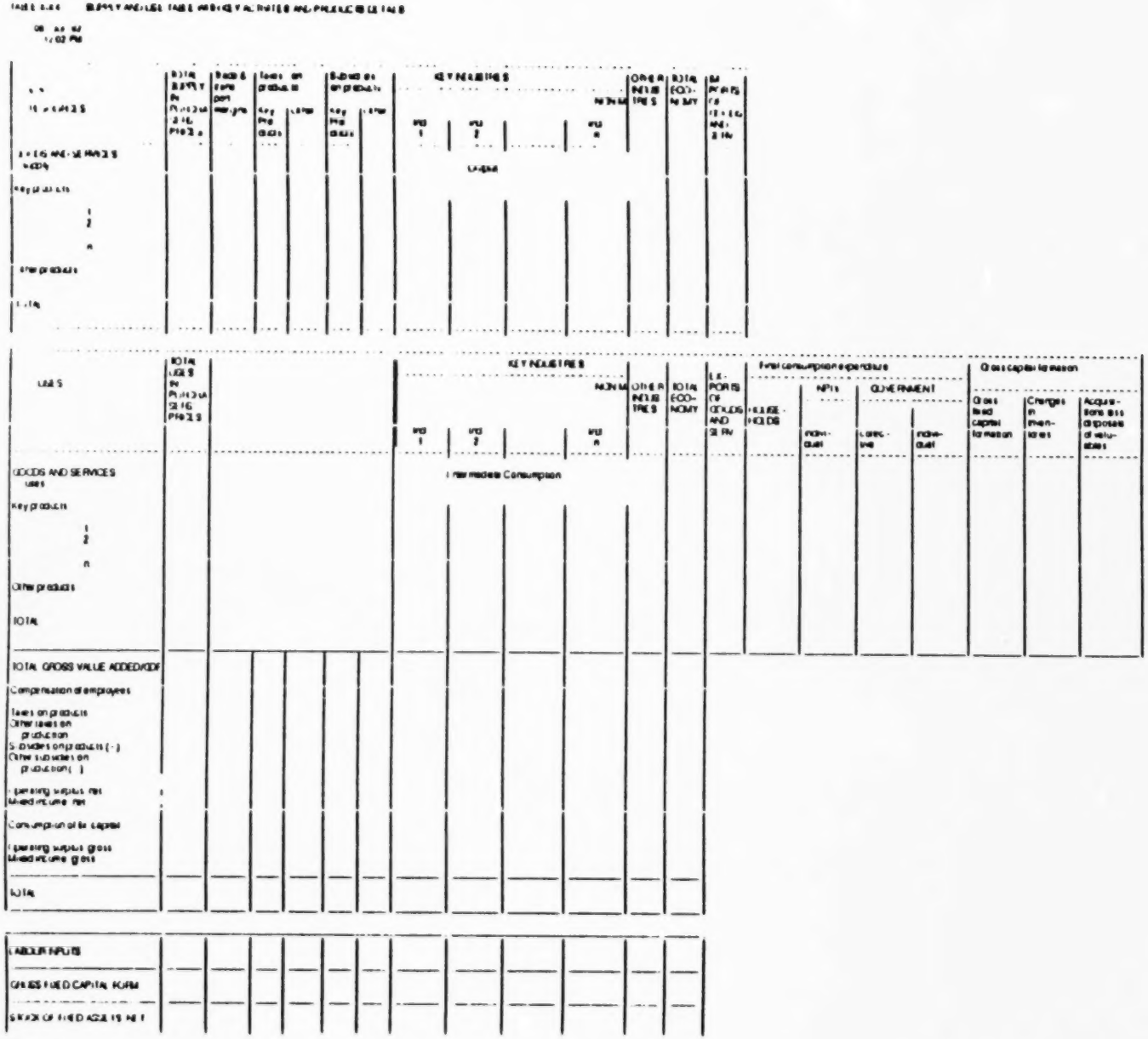

TABLE XIX 5 INTEGRATED ECONOMIC ACCOUNTS WITH KEY SECTOR DETAILS

09 - Jul - 92
12 07

USES

ACCOUNTS	TOTAL	GOODS AND SERVICES (RES)	REST OF THE WORLD		TOTAL ECONOMY	NPI s	(OTHER) HOUSE-HOLDS	GENERAL GOVERN-MENT	(OTHER) FINANCIAL CORPO-RATIONS	(OTHER) NON-FINANCIAL CORPO-RATIONS	KEY SECTOR				TRANSACTIONS AND BALANCING ITEMS
			OTHER EXTERNAL TRANSACT	KEY SECTOR EXTERNAL TRANSACT							PUBLIC CONTROL	PRIVATE CONTROL	FOREIGN CONTROL		
I PRODUCTION/ EXTERNAL ACCCOUNT OF GOODS AND SERVICES															Imports of goods and services Exports of Goods and services Output Intermediate consumption Taxes on products (net) Value added gross/GDP Consumption of fixed capital VALUE ADDED, NET/NDP EXT BAL OF GOODS AND SERVICES
IV3 CLOSING BALANCE SHEET															Non-financial assets Produced assets Non-produced assets Financial assets Liabilities NET WORTH

RESOURCES

KEY SECTOR			(OTHER) NON-FINANCIAL CORPORATIONS	(OTHER) FINANCIAL CORPORATIONS	GENERAL GOVERNMENT	(OTHER) HOUSEHOLDS	NPI's	TOTAL ECONOMY	REST OF THE WORLD		GOODS AND SERVICES (USES)	TOTAL	ACCOUNTS
	FOREIGN CONTROL	PRIVATE CONTROL	PUBLIC CONTROL							KEY SECTOR EXTERNAL TRANSACT	OTHER EXTERNAL TRANSACT			
														I PRODUCTION/ EXTERNAL ACCOUNT OF GOODS AND SERVICES
														II 1.1 GENERATION OF INCOME
														IV3 CLOSING BALANCE SHEET